FACTSHEET

WHAT MAKES SOCIAL SECURITY WORK

THE BASIC PRINCIPLES THAT UNDERLIE THE PROGRAM

Underlying the Social Security program are certain basic principles that guide its development and growth. These characteristics are worth noting because they are the key to how the program accomplishes its goal to provide a base of economic security for the American people. Five of these principles are discussed below.

SOCIAL SECURITY IS COMPULSORY

The question of whether coverage should be compulsory has been considered many times by Congress and various advisory groups. The decision has always been that the program should be compulsory to every extent possible.

Some have argued that the disadvantage of a compulsory program is that it eliminates freedom of choice. The money deducted from paychecks could be used better by individuals to provide for their own economic security.

It is true that, under a voluntary system, some workers who chose not to be covered under Social Security might be able to provide adequately for themselves and their families through private arrangements. But private arrangements may be far more risky since they depend on so many variables over which an individual has little control. They may not be adequate 10 or 20 years in the future.

Social Security benefits are backed by the full credit of the U.S. government. In addition, benefits increase automatically with the cost of living, resisting the erosion of inflation.

Under a voluntary system, some workers who chose not to participate could become disabled, reach old age, or die without adequate funds to support themselves and/or their families. They would need to be supported by public assistance. Social Security, then, would not meet one of its primary objectives of preventing economic insecurity by providing a continuing income after a worker becomes disabled, retires, or dies.

SOCIAL SECURITY BENEFITS ARE PAID AS A STATUTORY RIGHT AND NOT PAID ACCORDING TO NEED

The Social Security program is not and was never intended to be a program to provide benefits based on need. Rather, it is a system of social insurance under which workers (and their employers) contribute a part of their earnings in order to provide protection for themselves and their families if certain events occur. Since each worker pays Social Security taxes, each worker earns the right to receive Social Security benefits without regard to need. This is one of the basic principles of the Social Security program and is largely responsible for its widespread public acceptance and support.

The fact that Social Security benefits go to some people who have high incomes has been a source of criticism. However, these persons pay into the program and play an important role in its financial base. Moreover, benefits of higher earners are subject to the income tax as a result of the 1983 Social Security amendments.

SOCIAL SECURITY BENEFITS ARE WORK-RELATED

Social Security taxes and benefit amounts are related to a person's level of earnings during working years. As people earn more money and pay more in Social Security taxes, they are earning a right to higher benefits. There is, however, a limit on the amount of yearly earnings on which Social Security taxes must be paid and on which program benefit payments are figured.

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Some have argued that this limit favors high earners, who do not have to pay on as high a proportion of their earnings. However, the limit, which automatically increases as wages increase, is necessary. If all the earnings of higher paid workers were taxed and then credited for benefits, the program would have to pay very high benefits.

Another argument against work-related benefits has been that people who do not work for one reason or another (homemakers, disabled children) may not earn the right to benefits. However, in general, such persons are covered as dependents of workers and may receive retirement, survivors, or disability benefits on the workers' earnings records.

SOCIAL SECURITY IS FINANCED BY PAYROLL TAX

The main source of Social Security income is the taxes that employees, employers, and the self-employed pay. This method of financing Social Security—a payroll tax on workers and their employers—remains the primary method of financing the program. The Social Security program has won widespread public acceptance and support largely because it is directly supported by the people who receive benefits from it. Both benefit amounts and Social Security taxes are based on the worker's earnings under the program. This aspect of Social Security helps to avoid any implication that the benefits are a form of government assistance or public charity.

A continuing argument against the payroll tax is that it places a burden on the cost of doing business. It decreases the number of workers a company can afford to hire (and pay matching Social Security taxes) and limits the amount of wages they can afford to pay, the argument goes. However, companies are permitted to deduct the Social Security taxes they pay from their income tax as a business expense. They are also permitted to include Social Security benefits workers expect to receive in the company's pension plans.

Since the Social Security program began, many ideas have been advanced for obtaining additional revenues. However, the Congress and various advisory groups that have studied the program over the years have not endorsed proposals which would alter its basic structure.

SOCIAL SECURITY BENEFITS ARE WEIGHTED

The method of figuring benefits is weighted in favor of workers with low average lifetime earnings and those with families. This is because the program attempts to achieve social adequacy as well as individual equity. The goal of social adequacy assures that individuals receive a level of benefits that reflects their lesser ability to prepare for the risk. The goal of individual equity means that a person receives a reasonable return on his/her investment in Social Security.

Thus, while it is true that higher earners receive higher benefits, lower-paid workers receive higher benefits in relation to their earnings in employment covered by Social Security than do higher-paid workers. (Earnings replacement rates are about 60 percent for minimum wage earners, 42 percent for average wage earners, and 26 percent for high earners.)

In addition, the eligible members of the family of a retired, disabled, or deceased worker are paid benefits up to a family maximum.

As a result, Social Security has made a substantial contribution to raising people's income above the poverty level. It is estimated that if there were no Social Security, there would be almost four aged poor persons for everyone that is now classified as poor. Thus, any additional cost to the program as a result of the weighting of benefits is more than offset by the social gains that result.